

103^D CONGRESS
1ST SESSION

H. R. 1776

To facilitate and assist in the economic adjustment and industrial diversification of defense industries, defense-dependent communities, and defense workers that are adversely affected by the termination or reduction of defense spending or defense-related contracts.

IN THE HOUSE OF REPRESENTATIVES

APRIL 21, 1993

Ms. DELAURO introduced the following bill; which was referred jointly to the Committees on Armed Services, Ways and Means, Small Business, Education and Labor, Public Works and Transportation, and Banking, Finance and Urban Affairs

A BILL

To facilitate and assist in the economic adjustment and industrial diversification of defense industries, defense-dependent communities, and defense workers that are adversely affected by the termination or reduction of defense spending or defense-related contracts.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Defense Industrial
5 Diversification and Community Assistance Act of 1993”.

1 **SEC. 2. FINDINGS AND PURPOSE.**

2 (a) FINDINGS.—Congress finds the following:

3 (1) As a result of the recent democratization of
4 Eastern Europe and collapse of the Soviet Union,
5 the United States is likely to reevaluate its national
6 defense needs and reorder its national spending pri-
7 orities.

8 (2) A decrease in defense spending and the re-
9 duction or elimination of expenditures for some de-
10 fense or defense-related procurement are likely con-
11 sequences of such actions.

12 (3) Reductions in such expenditures are likely
13 to result in terminations or reductions of defense-re-
14 lated procurement contracts.

15 (4) Such terminations and reductions have an
16 adverse impact upon industries and small businesses
17 that are economically dependent on defense-related
18 procurement, the workers of such industries and
19 businesses, and the economies of the regions in
20 which such industries and businesses are located.

21 (5) In 1986, defense spending accounted for 6.5
22 percent of the Gross National Product of the United
23 States (GNP), an increase from 4.8 percent of GNP
24 attributable to such spending in 1979.

25 (6) Adjusted for inflation, the percentage of the
26 GNP spent attributable to defense spending in 1986

1 was roughly equal to the percentage of the GNP at-
2 tributable to such spending in 1953, at the height
3 of the Korean War, and in 1968, at the height of
4 the Vietnam War.

5 (7) Since 1986, the rise in defense spending has
6 slowed, with the percentage of the GNP attributable
7 to such spending in 1989 falling to 5.9 percent.

8 (8) It is likely that the portion of the Federal
9 budget that is allocated for defense spending will
10 continue to fall throughout the 1990's.

11 (9) The Department of Defense requires unique
12 specifications for nearly all the parts and equipment
13 procured by the Department.

14 (10) These specifications compel companies
15 that manufacture products pursuant to defense and
16 defense-related contracts and subcontracts to manu-
17 facture products that have applications only in the
18 defense sector, although many such products could
19 have applications in the civilian sector.

20 (11) Defense industries represent an important
21 segment of the United States industrial and tech-
22 nology base and cutbacks in defense spending should
23 be undertaken so as to enhance, rather than to af-
24 fect adversely, this industrial and technology base.

1 (12) The existence of a large military installa-
2 tion or defense or defense-related industrial facility
3 in a particular geographic area often results in the
4 existence of a network of smaller defense or defense-
5 related facilities in the same area.

6 (13) The existence of such a network in a geo-
7 graphic area often magnifies the disruption in the
8 economy and workforce of that area that results
9 from the impact of a reduction in defense spending
10 with respect to a large military installation or de-
11 fense or defense-related industrial facility.

12 (14) A lack of sufficient financial capital is one
13 of the most significant barriers that defense or de-
14 fense-related companies face in carrying out the di-
15 versification of such companies' products into the ci-
16 vilian sector.

17 (15) The Federal Government has a compelling
18 obligation to mitigate economic distress for workers,
19 local economies, small businesses, and industries
20 that, by reason of their contributions to the national
21 security of the United States, have become economi-
22 cally dependent on defense spending by the Federal
23 Government.

24 (16) Predictions about reductions in defense
25 spending suggest that such reductions will occur at

1 a relatively rapid pace over the next several years,
2 making it prudent to begin promptly the process of
3 planning for the diversification of industries, busi-
4 nesses, and area economies that have become eco-
5 nomically dependent on defense and defense-related
6 spending by the Federal Government.

7 (b) PURPOSE.—It is the purpose of this Act—

8 (1) to facilitate and assist the economic adjust-
9 ment and industrial diversification of industries,
10 communities, and workers that are adversely af-
11 fected by the termination or reduction by the Fed-
12 eral Government of defense spending or defense or
13 defense-related contracts;

14 (2) to provide for a unified and comprehensive
15 response by the Federal Government to reductions
16 in levels of defense spending; and

17 (3) to minimize job and economic loss due to
18 reduced levels of defense spending by providing ad-
19 justment assistance to workers, communities, and
20 small businesses that are largely dependent on de-
21 fense spending.

22 **SEC. 3. DEFINITIONS.**

23 (a) DEFENSE AGENCY.—The term “defense agency”
24 means the Department of Defense, the nuclear weapons
25 division of the Department of Energy, the National Aero-

1 nautics and Space Administration, the Coast Guard, and
2 any other agency of the Government to the extent such
3 agency conducts military or other defense related oper-
4 ations.

5 (b) DEFENSE CONTRACT.—The term “defense con-
6 tract” means any contract or subcontract entered into be-
7 tween a person or nonprofit organization, including sub-
8 contractors, components manufacturers, suppliers and
9 service contractors, and a defense agency to provide mate-
10 rial or defense related operations.

11 (c) DEFENSE CONTRACTOR.—The term “defense
12 contractor” means any facility engaged in the furnishing
13 of defense material pursuant to the terms of a defense
14 contract.

15 (d) DEFENSE FACILITY.—The term “defense facil-
16 ity” means any private plant or other establishment, or
17 part thereof, used under a defense contract or engaged
18 in the production, repair, modification, storage, or han-
19 dling of defense material, or any Government-owned or
20 Government-leased facility, including bases, forts, ship-
21 yards, and depots.

22 (e) QUALIFIED DEFENSE FACILITY.—The term
23 “qualified defense facility” means any defense facility at
24 least 35 percent of the average annual gross revenues of

1 which for the preceding 3 years are attributable to defense
2 contracts.

3 (f) SUBSTANTIALLY AND SERIOUSLY AFFECTED
4 COMMUNITY.—The term “substantially and seriously af-
5 fected community” means any community—

6 (A) which has, within its administrative and po-
7 litical jurisdiction, 1 or more defense facilities; and

8 (B) in which the curtailment, completion, elimi-
9 nation, or realignment of a defense contract or pro-
10 gram or the realignment or closure of any defense
11 facility results in a workforce reduction, over a 12-
12 month period, of 250 or more employees (including
13 part time employees) who in the aggregate work at
14 least 10,000 hours per week, exclusive of hours of
15 overtime.

16 (g) QUALIFIED SMALL MANUFACTURING FIRM.—
17 The term “qualified small manufacturing firm” means
18 any facility which—

19 (1) employs less than 500 employees;

20 (2) is independently owned and operated;

21 (3) is not dominant in its field of operation;

22 (4) has gross revenues consisting of at least 50
23 percent value-added manufacturing activity;

24 (5) has gross revenues consisting of at least 35
25 percent defense contracts; and

(6) can demonstrate that such facility has either recently experienced or will experience the cancellation of a defense contract causing the significant reduction in the volume of defense work in relation to the total defense work in such facility.

TITLE I—INDUSTRIAL DIVERSIFICATION STUDY

SEC. 101. STUDY AND REPORT REQUIRED.

(a) STUDY.—The Secretary of Commerce, in consultation with the Administrator of the Small Business Administration, the Secretary of Defense, and the Director of the Advanced Research Projects Agency (ARPA) shall study the extent to which diversification of defense industries to non-defense production can be effectuated.

(b) CONTENTS OF STUDY.—The study shall include—

(1) an inventory of the number and type of manufacturing firms in the United States that individually receive annual defense contracts totaling over \$2,000,000;

(2) an historical analysis of the percentage of the Nation's Gross National Product directly related to defense spending and the role of such defense spending in the economy;

1 (3) a geographic inventory of the regions of the
2 United States most dependent on defense spending,
3 including an analysis of the effect that potential cuts
4 in defense spending will have on the economies of
5 these regions;

6 (4) an analysis of the potential effect that de-
7 fense cutbacks will have on both the Nation's tech-
8 nological base and industrial base, including—

9 (A) the amount of the defense budget
10 allocated for basic and applied research and de-
11 velopment purposes and the effect of defense re-
12 ductions on such research and development, in-
13 cluding the effect on civilian and strategic de-
14 fense basic and applied research and develop-
15 ment; and

16 (B) an inventory of the extent of and na-
17 ture of the civilian-use advanced technologies
18 that have developed as a result of defense-spon-
19 sored research in the last 10 years and the ef-
20 fects of potential defense cutbacks on the future
21 of such civilian technologies; and

22 (5) an evaluation and recommendations, on a
23 defense industry sector-by-sector basis, on how di-
24 versification to nondefense production can be carried
25 out, including a review of which sectors can under-

1 take such diversification, which sectors should be
2 particularly encouraged to undertake diversification
3 for reasons of protecting the Nation's technological
4 and industrial base and meeting civilian research
5 and development needs, and recommendations for
6 the government's role in assisting such diversifica-
7 tion.

8 (c) REPORT.—The Secretary of Commerce shall re-
9 port the results of the study required under subsection (a)
10 to the President pro tempore of the Senate and the Speak-
11 er of the House of Representatives not later than the date
12 which is 12 months after the date of the enactment of
13 this Act.

14 (d) AUTHORIZATION OF APPROPRIATIONS.—There is
15 hereby authorized to be appropriated such sums as may
16 be necessary to carry out the study and report required
17 under this section.

18 **TITLE II—PRESIDENTIAL COUN-**
19 **CIL ON ECONOMIC DIVER-**
20 **SIFICATION AND ADJUST-**
21 **MENT**

22 **SEC. 201. ESTABLISHMENT.**

23 (a) IN GENERAL.—There is hereby established in the
24 Executive Office of the President the Council on Economic

1 Diversification and Adjustment (hereafter in this Act re-
2 ferred to as the “Council”) which shall be composed of—

3 (1) the Secretary of Labor;

4 (2) the Secretary of Commerce;

5 (3) the Secretary of Defense;

6 (4) the Secretary of Housing and Urban Devel-
7 opment;

8 (5) the Secretary of Transportation;

9 (6) the Secretary of Energy;

10 (7) the Director of the Office of Management
11 and Budget;

12 (8) the Administrator of the Small Business
13 Administration;

14 (9) the Chairman of the Council of Economic
15 Advisers;

16 (10) 4 representatives of the business-manage-
17 ment community to be appointed by the President,
18 2 of whom shall be appointed from defense related
19 businesses and 2 from nondefense related busi-
20 nesses; and

21 (11) 4 representatives of labor union organiza-
22 tions to be appointed by the President.

23 (b) CO-CHAIRPERSONS.—The Secretaries of Com-
24 merce and Labor shall cochair the Council, shall preside
25 over meetings of the Council, and shall designate a mem-

1 ber of the Council to preside in the absence of the
2 cochairpersons.

3 (c) VACANCIES.—Vacancies in the membership of the
4 Council described in paragraphs (10) and (11) of sub-
5 section (a) shall be filled in the same manner as original
6 appointments are made. Vacancies in the membership of
7 the Council shall not affect the authority of the remaining
8 members to execute the functions of the Council.

9 (d) COMPENSATION.—Members of the Council de-
10 scribed in paragraphs (10) and (11) of subsection (a) shall
11 be reimbursed for travel and per diem in lieu of subsist-
12 ence expenses during the performance of duties of the
13 Council in accordance with subchapter I of chapter 57 of
14 title 5, United States Code.

15 **SEC. 202. OFFICE OF ECONOMIC DIVERSIFICATION AND**
16 **ADJUSTMENT.**

17 (a) ESTABLISHMENT.—(1) There is hereby estab-
18 lished an Office of Economic Diversification and Adjust-
19 ment (hereafter in this title referred to as the “Office”)
20 within the Executive Office of the President to provide
21 necessary staff support for the Council.

22 (2) The Office shall be headed by a Director who
23 shall be appointed by the President and be compensated
24 at the rate provided for level V of the Executive Schedule
25 under section 5316 of title 5, United States Code.

1 (3) The Director may appoint and fix the compensa-
2 tion of such personnel as the Director deems advisable.
3 The Director may procure temporary and intermittent
4 services to the same extent authorized by section 3109 of
5 title 5, United States Code.

6 (4) The Director may secure directly from any execu-
7 tive department, agency or other instrumentality of the
8 Government, information, suggestions, estimates, and sta-
9 tistics to carry out this Act, and each such entity shall
10 furnish information directly to the Office upon request
11 made by the Director.

12 **SEC. 203. DUTIES.**

13 (a) IN GENERAL.—The Council shall—

14 (1) carry out the programs provided for in this
15 Act;

16 (2) identify defense related impact problems of
17 States, metropolitan areas, or communities that re-
18 quire assistance;

19 (3) disseminate information furnished by the
20 Secretary of Defense under subsection (b) to the ap-
21 propriate Federal, State, and local agencies or au-
22 thorities as soon as the proposed or pending change
23 described in such notice is known;

24 (4) notify areas that are eligible for community
25 or worker economic adjustment assistance;

1 (5) prepare development strategies and action
2 plans to coordinate Federal, State, and local eco-
3 nomic adjustment efforts;

4 (6) encourage the preparation of concrete plans
5 for civilian related, private enterprise, and public
6 projects which address vital areas of national con-
7 cern such as transportation, housing, education, en-
8 vironment, and health care;

9 (7) develop means to strengthen and make uni-
10 form the methods for conducting and reporting the
11 economic impact analyses of community require-
12 ments for Federal economic adjustment resources
13 before contract cancellation or termination, or de-
14 fense facility closing;

15 (8) develop and coordinate information on
16 federally funded projects, agency programs, and
17 funding possibilities, including loans and loan guar-
18 antees, pertaining to economic diversification and
19 adjustment;

20 (9) establish priorities for the distribution of
21 funds available for economic diversification and ad-
22 justment based on an assessment of the needs of
23 substantially and seriously affected communities and
24 workers;

1 (10) establish and maintain a clearinghouse to
2 facilitate the exchange of information among Fed-
3 eral, State, and local officials involved in the resolu-
4 tion of business, worker, and community adjustment
5 problems, including the results of studies, technical
6 information, and sources of public and private fi-
7 nancing;

8 (11) prepare and distribute an economic diver-
9 sification and adjustment handbook which shall in-
10 clude—

11 (A) a detailed directory and discussion of
12 currently available Federal programs that pro-
13 mote economic development and help to mini-
14 mize the dislocation of workers, communities,
15 and industries;

16 (B) an explanation of the basic issues in-
17 volved in the diversification process for workers,
18 communities, and businesses;

19 (C) an outline of the basic requirements
20 for a program of professional retraining of tech-
21 nical personnel in order to effectively reorient
22 such personnel to the prevailing conditions of
23 research, product design, and production oper-
24 ations within nondefense related facilities;

1 (D) an outline of the basic requirements
2 for the length and nature of occupational re-
3 training for production workers and junior level
4 administrative employees;

5 (E) illustrative case studies of successful
6 conversion to efficient nondefense related pro-
7 duction, or references thereto; and

8 (F) directories, by geographic region and
9 area of specialization, of organizations and indi-
10 vidual consultants in fields such as marketing,
11 facilities design, organization, production engi-
12 neering, and engineering economy whose major
13 professional experience has been in nondefense
14 related activity.

15 (b) INFORMATION ON CHANGES IN DEFENSE SPEND-
16 ING.—(1) The Secretary of Defense shall notify the Coun-
17 cil 1 year in advance of a pending or proposed change in
18 defense spending that would affect employment in the de-
19 fense industry, including—

20 (A) reduction, technical changes, or elimination
21 of a program by Congress, the Secretary of Defense,
22 the Office of Management and Budget, or the Presi-
23 dent;

24 (B) termination or slowdown of a research and
25 development or procurement contract; and

1 (C) closure of a defense facility.

2 (2) The Secretary of Defense shall furnish the Coun-
3 cil with projected future defense spending levels and con-
4 tract progress reports.

5 **SEC. 204. THE PRESIDENT'S ANNUAL ECONOMIC DIVER-**
6 **SIFICATION AND ADJUSTMENT REPORT.**

7 The Council shall submit an annual report to Con-
8 gress on economic diversification and adjustment that
9 shall include the following:

10 (1) A detailed discussion of currently available
11 Federal programs, including appropriation and staff
12 levels, that promote economic development and help
13 to minimize the dislocation of workers, communities,
14 and industries.

15 (2) An explanation of the basic issues involved
16 in the retraining, reorientation, and reorganization
17 of personnel.

18 (3) A detailed discussion of available programs
19 within the Export-Import Bank of the United States
20 and the Department of Commerce concerning the
21 international marketplace, export opportunities, and
22 financing packages.

23 (4) A description of assistance packages, initi-
24 ated by the Council, to communities which have suf-

1 ferred economic disruptions and worker dislocation
2 caused by defense cutbacks.

3 **SEC. 205. AUTHORIZATION OF APPROPRIATIONS.**

4 There is hereby authorized to be appropriated such
5 sums as may be necessary to carry out the provisions of
6 this title.

7 **TITLE III—INDUSTRIAL DIVER-**
8 **SIFICATION ACCOUNTS; AL-**
9 **TERNATIVE DEFENSE INVEST-**
10 **MENT TAX CREDIT.**

11 **SEC. 301. INDUSTRIAL DIVERSIFICATION ACCOUNTS.**

12 (a) IN GENERAL.—Chapter 77 of the Internal Reve-
13 nue Code of 1986 (relating to miscellaneous provisions)
14 is amended by adding at the end thereof the following new
15 section:

16 **“SEC. 7524. INDUSTRIAL DIVERSIFICATION ACCOUNTS.**

17 “(a) AGREEMENT RULES.—Any eligible corporation
18 (as defined in subsection (j)(1)) may enter into an agree-
19 ment with the Secretary under, and as provided in, this
20 section to establish an industrial diversification account
21 (hereafter in this section referred to as the ‘account’). Any
22 agreement entered into under this section shall be for the
23 purpose of providing qualified plant and equipment in the
24 United States or the retraining or skills upgrading of em-
25 ployees, for the purpose of diversifying qualified defense

1 facilities from predominately relying on defense contracts
2 to nondefense lines of business, and shall provide for the
3 deposit in the account of the amounts agreed upon as nec-
4 essary or appropriate to provide for qualified withdrawals
5 under subsection (f). The deposits in the account, and all
6 withdrawals from the account, whether qualified or non-
7 qualified, shall be subject to such conditions and require-
8 ments as the Secretary may by regulations prescribe or
9 as set forth in such agreement.

10 “(b) CEILING ON DEPOSITS.—

11 “(1) LIMIT DURING FIRST 5 YEARS.—The
12 amount deposited under subsection (a) in the ac-
13 count for any of the first 5 taxable years following
14 the taxable year in which an agreement was entered
15 into shall not exceed the average of the sum of the
16 following amounts for the 5 taxable years preceding
17 the taxable year for which the determination is being
18 made:

19 “(A) The amount allowable as a deduction
20 under section 167 for such taxable year.

21 “(B) The net proceeds from—

22 “(i) the sale or other disposition of
23 any property of a character subject to the
24 allowance for depreciation, or

1 “(ii) insurance or indemnity attrib-
2 utable to any such property.

3 “(C) The receipts from the investment or
4 reinvestment of amounts held in such account.

5 “(2) LIMIT AFTER 5 YEARS.—The amount de-
6 posited under subsection (a) in the account for any
7 taxable year after such 5th taxable year shall not ex-
8 ceed the amount specified in paragraph (1)(C).

9 “(c) REQUIREMENTS AS TO INVESTMENTS.—

10 “(1) IN GENERAL.—Amounts in any account
11 established under this section shall be kept in the
12 depository or depositories specified in the agreement
13 and shall be subject to such trustee and other fidu-
14 ciary requirements as may be specified by the Sec-
15 retary.

16 “(2) LIMITATION OF ACCOUNT INVEST-
17 MENTS.—Amounts in an account may be invested
18 only in interest-bearing securities approved by the
19 Secretary; except that, if the Secretary consents
20 thereto, an agreed percentage (not in excess of 60
21 percent) of the assets of the account may be invested
22 in the stock of domestic corporations. Such stock
23 must be currently fully listed and registered on an
24 exchange registered with the Securities and Ex-
25 change Commission or a national securities exchange

1 and must be stock which would be acquired by pru-
2 dent men of discretion and intelligence in such mat-
3 ters who are seeking a reasonable income and the
4 preservation of capital. If at any time the fair mar-
5 ket value of the stock in the account is more than
6 the agreed percentage of the assets in the account,
7 any subsequent investment or withdrawal from the
8 account, shall be made in such a way as to tend to
9 restore the account to a situation in which the fair
10 market value of the stock does not exceed such
11 agreed percentage.

12 “(3) INVESTMENT IN CERTAIN PREFERRED
13 STOCK PERMITTED.—For purposes of this sub-
14 section, if the common stock of a corporation meets
15 the requirements of this subsection and if the pre-
16 ferred stock of such corporation would meet such re-
17 quirements but for the fact that it cannot be listed
18 and registered as required because it is nonvoting
19 stock, such preferred stock shall be treated as meet-
20 ing the requirements of this subsection.

21 “(d) NONTAXABILITY OF DEPOSITS.—

22 “(1) IN GENERAL.—For purposes of this title—

23 “(A) gain from a transaction referred to in
24 subsection (b)(1)(B) shall not be taken into ac-
25 count if an amount equal to the net proceeds

1 from such transaction is deposited in the ac-
2 count,

3 “(B) the earnings (including gains and
4 losses) from the investment and reinvestment of
5 amounts held in the account shall not be taken
6 into account,

7 “(C) the earnings and profits of any cor-
8 poration (within the meaning of section 316)
9 shall be determined without regard to this sec-
10 tion and section 7518, and

11 “(D) in applying the tax imposed by sec-
12 tion 531 (relating to the accumulated earnings
13 tax), amounts while held in the account shall
14 not be taken into account.

15 “(2) ONLY QUALIFIED DEPOSITS ELIGIBLE FOR
16 TREATMENT.—Paragraph (1) shall apply with re-
17 spect to any amount only if such amount is depos-
18 ited in the account pursuant to the agreement and
19 not later than the time provided in regulations.

20 “(e) ESTABLISHMENT OF SUBACCOUNTS.—

21 “(1) IN GENERAL.—Within the account estab-
22 lished pursuant to this section 3 subaccounts shall
23 be maintained—

24 “(A) the capital subaccount,

25 “(B) the capital gain subaccount, and

1 “(C) the ordinary income subaccount.

2 “(2) CAPITAL SUBACCOUNT.—The capital sub-
3 account shall consist of—

4 “(A) amounts referred to in subsection
5 (b)(1)(A),

6 “(B) amounts referred to in subsection
7 (b)(1)(B) other than that portion thereof which
8 represents gain not taken into account by rea-
9 son of subsection (d)(1)(A),

10 “(C) the percentage applicable under sec-
11 tion 243(a)(1) of any dividend received by the
12 account with respect to which the person main-
13 taining the account would (but for subsection
14 (d)(1)(B)) be allowed a deduction under section
15 243, and

16 “(D) interest income exempt from taxation
17 under section 103.

18 “(3) CAPITAL GAIN SUBACCOUNT.—The capital
19 gain subaccount shall consist of—

20 “(A) amounts representing capital gains on
21 assets held for more than 1 year and referred
22 to in subsection (b)(1)(B) or (b)(1)(C), reduced
23 by

1 “(B) amounts representing capital losses
2 on assets held in the account for more than 1
3 year.

4 “(4) ORDINARY INCOME SUBACCOUNT.—The
5 ordinary income subaccount shall consist of—

6 “(A)(i) amounts representing capital gains
7 on assets held for 1 year or less and referred
8 to in subsection (b)(1)(B) or (b)(1)(C), reduced
9 by

10 “(ii) amounts representing capital losses
11 on assets held in the account for 1 year or less,

12 “(B) interest (not including any tax-ex-
13 empt interest referred to in paragraph (2)(D))
14 and other ordinary income (not including any
15 dividend referred to in subparagraph (D) of this
16 paragraph) received on assets held in the ac-
17 count,

18 “(C) ordinary income from a transaction
19 described in subsection (b)(1)(B), and

20 “(D) the portion of any dividend referred
21 to in paragraph (2)(C) not taken into account
22 under such paragraph.

23 “(5) CAPITAL LOSSES ONLY ALLOWED TO OFF-
24 SET CERTAIN GAINS.—Except on termination of an
25 account, capital losses referred to in paragraph

1 (3)(B) or in paragraph (4)(A)(ii) shall be allowed
2 only as an offset to gains referred to in paragraph
3 (3)(A) or (4)(A)(i), respective.

4 “(f) PURPOSES OF QUALIFIED WITHDRAWALS.—

5 “(1) IN GENERAL.—A qualified withdrawal
6 from the account is one made in accordance with the
7 terms of the agreement but only if it is for—

8 “(A) the acquisition, construction, or re-
9 construction of qualified plant and equipment,

10 “(B) the payment of the principal on in-
11 debtedness incurred in connection with the ac-
12 quisition, construction, or reconstruction of
13 qualified plant and equipment, or

14 “(C) the retraining, skills upgrading, or
15 continued education of employees.

16 “(2) PENALTY FOR FAILING TO FULFILL ANY
17 SUBSTANTIAL OBLIGATION.—Under joint regula-
18 tions, if the Secretary determines that any substan-
19 tial obligation under any agreement is not being ful-
20 filled, the Secretary may, after notice and oppor-
21 tunity for hearing to the person maintaining the ac-
22 count, treat the entire account or any portion there-
23 of as an amount withdrawn from the account in a
24 nonqualified withdrawal.

1 “(g) TAX TREATMENT OF QUALIFIED WITHDRAW-
2 ALS.—

3 “(1) IN GENERAL.—Any qualified withdrawal
4 from an account shall be treated—

5 “(A) first as made out of the capital sub-
6 account,

7 “(B) second as made out of the capital
8 gain subaccount, and

9 “(C) third as made out of the ordinary in-
10 come subaccount.

11 “(2) ADJUSTMENT TO BASIS WHERE WITH-
12 DRAWAL FROM ORDINARY INCOME SUBACCOUNT.—If
13 any portion of a qualified withdrawal for plant and
14 equipment is made out of the ordinary income sub-
15 account, the basis of such plant and equipment shall
16 be reduced by an amount equal to such portion.

17 “(3) ADJUSTMENT TO BASIS WHERE WITH-
18 DRAWAL FROM CAPITAL GAIN SUBACCOUNT.—If any
19 portion of a qualified withdrawal for plant and
20 equipment is made out of the capital gain sub-
21 account, the basis of such plant and equipment shall
22 be reduced by an amount equal to such portion.

23 “(4) ADJUSTMENT TO BASIS WHERE WITH-
24 DRAWAL PAYS PRINCIPAL ON DEBT.—If any portion
25 of a qualified withdrawal to pay the principal on any

1 indebtedness is made out of the ordinary income
2 subaccount or the capital gain subaccount, then an
3 amount equal to the aggregate reduction which
4 would be required by paragraphs (2) and (3) if such
5 withdrawal were a qualified withdrawal for a pur-
6 pose described in such paragraphs shall be applied,
7 in the order provided in joint regulations, to reduce
8 the basis of plant and equipment owned by the per-
9 son maintaining the account. Any amount of a
10 withdrawal remaining after the application of the
11 preceding sentence shall be treated as a nonqualified
12 withdrawal.

13 “(5) ORDINARY INCOME RECAPTURE OF BASIS
14 REDUCTION.—If any property the basis of which was
15 reduced under paragraph (2), (3), or (4) is disposed
16 of, any gain realized on such disposition, to the ex-
17 tent it does not exceed the aggregate reduction in
18 the basis of such property under such paragraphs,
19 shall be treated as an amount referred to in sub-
20 section (h)(3)(A) which was withdrawn on the date
21 of such disposition. Subject to such conditions and
22 requirements as may be provided in joint regula-
23 tions, the preceding sentence shall not apply to a
24 disposition where there is a redeposit in an amount
25 determined under joint regulations which will, inso-

1 far as practicable, restore the account to the position
2 such account was in before the withdrawal.

3 “(h) TAX TREATMENT OF NONQUALIFIED WITH-
4 DRAWALS.—

5 “(1) IN GENERAL.—Except as provided in sub-
6 section (i), any withdrawal from an account which is
7 not a qualified withdrawal shall be treated as a non-
8 qualified withdrawal.

9 “(2) ORDERING RULE.—Any nonqualified with-
10 drawal from an account shall be treated—

11 “(A) first as made out of the ordinary in-
12 come subaccount,

13 “(B) second as made out of the capital
14 gain subaccount, and

15 “(C) third as made out of the capital sub-
16 account.

17 For purposes of this section, items withdrawn from any
18 subaccount shall be treated as withdrawn on a first-in-
19 first-out basis; except that (i) any nonqualified withdrawal
20 for research, development, and design expenses incident
21 to new and advanced plant and equipment, and (ii) any
22 amount treated as a nonqualified withdrawal under the
23 second sentence of subsection (g)(4), shall be treated as
24 withdrawn on a last-in-first-out basis.

1 “(3) OPERATING RULES.—For purposes of this
2 title—

3 “(A) any amount referred to in paragraph
4 (2)(A) shall be included in income for the tax-
5 able year in which the withdrawal is made as an
6 item of ordinary income,

7 “(B) any amount referred to in paragraph
8 (2)(B) shall be included in income for the tax-
9 able year in which the withdrawal is made as an
10 item of gain realized during such year from the
11 disposition of an asset held for more than 1
12 year, and

13 “(C) for the period on or before the last
14 date prescribed for payment of tax for the tax-
15 able year in which such withdrawal is made—

16 “(i) no interest shall be payable under
17 section 6601 and no addition to the tax
18 shall be payable under section 6651,

19 “(ii) interest on the amount of the ad-
20 ditional tax attributable to any item re-
21 ferred to in subparagraph (A) or (B) shall
22 be paid at the applicable rate (as defined
23 in paragraph (4)) from the last date
24 prescribed for payment of the tax for the

1 taxable year for which such item was de-
2 posited in the account, and

3 “(iii) no interest shall be payable on
4 amounts referred to in clauses (i) and (ii)
5 of paragraph (2).

6 “(4) APPLICABLE RATE.—For purposes of
7 paragraph (3)(C)(ii), the applicable rate of interest
8 for any nonqualified withdrawal shall be the rate es-
9 tablished in section 6621(a)(2).

10 “(5) AMOUNT NOT WITHDRAWN FROM ACCOUNT
11 AFTER 12 YEARS FROM DATE OF AGREEMENT TAXED
12 AS NONQUALIFIED WITHDRAWAL.—

13 “(A) IN GENERAL.—The applicable per-
14 centage of any amount which remains in an ac-
15 count at the close of the 10th, 11th, or 12th
16 taxable year following the taxable year in which
17 an agreement was entered into shall be treated
18 as a nonqualified withdrawal in accordance with
19 the following table:

“If the amount remains in the account at the close of the:	The applicable percentage is:
10th taxable year	20 percent
11th taxable year	60 percent
12th taxable year	100 percent

20 “(B) EARNINGS TREATED AS DEPOSITS.—
21 The earnings of any account for any taxable
22 year (other than net gains) shall be treated for

1 purposes of this paragraph as an amount re-
2 maining in the account for such taxable year.

3 “(C) AMOUNTS COMMITTED TREATED AS
4 WITHDRAWN.—For purposes of subparagraph
5 (A), an amount shall not be treated as remain-
6 ing in an account at the close of any taxable
7 year to the extent there is a binding contract at
8 the close of such year for a qualified withdrawal
9 of such amount with respect to an identified
10 item for which such withdrawal may be made.

11 “(D) AUTHORITY TO TREAT EXCESS
12 FUNDS AS WITHDRAWN.—If the Secretary de-
13 termines that the balance in any account ex-
14 ceeds the amount which is appropriate to meet
15 the account’s program objectives, the amount of
16 such excess shall be treated as a nonqualified
17 withdrawal under subparagraph (A) unless the
18 person maintaining the account develops appro-
19 priate program objectives within 3 years to dis-
20 sipate such excess.

21 “(6) NONQUALIFIED WITHDRAWALS TAXED AT
22 HIGHEST MARGINAL RATE.—

23 “(A) IN GENERAL.—In the case of any
24 taxable year for which there is a nonqualified
25 withdrawal (including any amount so treated

1 under paragraph (5)), the tax imposed by chap-
2 ter 1 shall be determined—

3 “(i) by excluding such withdrawal
4 from gross income, and

5 “(ii) by increasing the tax imposed by
6 chapter 1 by the product of the amount of
7 such withdrawal and the highest rate of
8 tax specified in section 11.

9 With respect to the portion of any nonqualified
10 withdrawal made out of the capital gain sub-
11 account during a taxable year to which section
12 1201(a) applies, the rate of tax taken into ac-
13 count under the preceding sentence shall not
14 exceed 34 percent.

15 “(B) TAX BENEFIT RULE.—If any portion
16 of a nonqualified withdrawal is properly attrib-
17 utable to deposits (other than earnings on de-
18 posits) made by the taxpayer in any taxable
19 year which did not reduce the taxpayer’s liabil-
20 ity for tax under chapter 1 for any taxable year
21 preceding the taxable year in which such with-
22 drawal occurs—

23 “(i) such portion shall not be taken
24 into account under subparagraph (A), and

1 “(ii) an amount equal to such portion
2 shall be treated as allowed as a deduction
3 under section 172 for the taxable year in
4 which such withdrawal occurs.

5 “(C) COORDINATION WITH DEDUCTION
6 FOR NET OPERATING LOSSES.—Any non-
7 qualified withdrawal excluded from gross in-
8 come under subparagraph (A) shall be excluded
9 in determining taxable income under section
10 172(b)(2).

11 “(i) CERTAIN CORPORATE REORGANIZATIONS.—
12 Under joint regulations, transfer of an account from one
13 person to another person in a transaction to which section
14 381 applies may be treated as if such transaction did not
15 constitute a nonqualified withdrawal.

16 “(j) DEFINITIONS.—For purposes of this section—

17 “(1) ELIGIBLE CORPORATION.—The term ‘eligi-
18 ble corporation’ means any corporation at least 35
19 percent of the average annual gross revenues of
20 which for the preceding 3 taxable years are attrib-
21 utable to defense contracts (as defined in section
22 3(b) of the Defense Industrial Diversification and
23 Community Assistance Act of 1993).

24 “(2) QUALIFIED PLANT AND EQUIPMENT.—The
25 term ‘qualified plant and equipment’ means new or

1 modernized plant and equipment which will be used
2 for the production of parts, goods, or materials other
3 than under a defense contract (as that term is de-
4 fined in section 3(b) of such Act).

5 “(3) RETRAINING.—The term ‘retraining’
6 means any employer-sponsored activity designed to
7 prepare or further prepare individuals for firm-relat-
8 ed employment.

9 “(4) JOINT REGULATIONS.—The term ‘joint
10 regulations’ means the regulations prescribed under
11 subsection (k).

12 “(k) RECORDS; REPORTS; CHANGES IN REGULA-
13 TIONS.—Each person maintaining an account under this
14 section shall keep such records and shall make such re-
15 ports as the Secretary or the Secretary of Defense shall
16 require. The Secretary and the Secretary of Defense shall
17 jointly prescribe all rules and regulations, not inconsistent
18 with the foregoing provisions of this section, as may be
19 necessary or appropriate to the determination of tax liabil-
20 ity under this section. If, after an agreement has been en-
21 tered into under this section, a change is made either in
22 the joint regulations or in the regulations prescribed by
23 the Secretary under this section which could have a sub-
24 stantial effect on the rights or obligations of any person

1 maintaining an account under this section, such person
2 may terminate such agreement.

3 “(I) DEPARTMENTAL REPORTS AND CERTIFI-
4 CATION.—

5 “(1) IN GENERAL.—For each calendar year, the
6 Secretary shall provide the Secretary of Defense,
7 within 120 days after the close of such calendar
8 year, a written report with respect to the accounts
9 established under this section.

10 “(2) CONTENT OF REPORTS.—Each report shall
11 set forth the name and taxpayer identification num-
12 ber of each person—

13 “(A) establishing an account during such
14 calendar year;

15 “(B) maintaining an account as of the last
16 day of such calendar year;

17 “(C) terminating an account during such
18 calendar year;

19 “(D) making any withdrawal from or de-
20 posit into (and the amounts thereof) an account
21 during such calendar year; or

22 “(E) with respect to which a determination
23 has been made during such calendar year that
24 such person has failed to fulfill a substantial

1 obligation under any account agreement to
2 which such person is a party.”

3 (b) MINIMUM TAX TREATMENT.—Section 56(c) of
4 the Internal Revenue Code of 1986 (relating to adjust-
5 ments applicable to corporations) is amended by adding
6 at the end thereof the following new paragraph:

7 “(4) INDUSTRIAL DIVERSIFICATION AC-
8 COUNTS.—In the case of an industrial diversification
9 account established under section 7524—

10 “(A) subparagraphs (A) and (B) of section
11 7524(d)(1) shall not apply, and

12 “(B) no reduction in basis shall be made
13 under subsection (g) with respect to the with-
14 drawal from the account of any amount to
15 which subparagraph (A) applies.”

16 (c) CLERICAL AMENDMENT.—The table of sections
17 for chapter 77 of the Internal Revenue Code of 1986 is
18 amended by adding at the end thereof the following new
19 item:

“Sec. 7524. Industrial diversification accounts.”

20 (d) EFFECTIVE DATE.—The amendments made by
21 this section shall apply to taxable years beginning after
22 the date of the enactment of this Act.

23 **SEC. 302. ALTERNATIVE INVESTMENT TAX CREDIT.**

24 (a) ALLOWANCE OF CREDIT.—Section 46 of the In-
25 ternal Revenue Code of 1986 (relating to amount of in-

1 vestment credit) is amended by striking “and” at the end
2 of paragraph (2), by striking the period at the end of para-
3 graph (3) and inserting “, and”, and by adding at the
4 end thereof the following new paragraph:

5 “(4) in the case of an eligible corporation (as
6 defined in section 7524(j)(1)) which does not have
7 an industrial diversification account (within the
8 meaning of section 7524) for the taxable year or any
9 prior taxable year, the industrial diversification cred-
10 it.”

11 (b) AMOUNT OF CREDIT.—Section 48 of such Code
12 is amended by adding at the end thereof the following new
13 subsection:

14 “(c) INDUSTRIAL DIVERSIFICATION CREDIT.—

15 “(1) GENERAL RULE.—For purposes of section
16 46, the industrial diversification credit for the tax-
17 able year is an amount equal to 20 percent of the
18 amount paid or incurred during such taxable year
19 for a purpose for which a qualified withdrawal would
20 be permitted by the taxpayer from an industrial di-
21 versification account (within the meaning of section
22 7524) if the taxpayer had such an account. Such
23 credit shall be in addition to any other credit allow-
24 able under this subpart.

1 “(2) SPECIAL RULE.—If any credit is deter-
2 mined under subsection (a) for any amount which is
3 includible in the basis of any property, such property
4 shall be treated as investment credit property for
5 purposes of this subpart.”

6 (c) TECHNICAL AMENDMENTS.—

7 (1) Clause (ii) of section 49(a)(1)(C) of such
8 Code is amended by inserting “or property with re-
9 spect to which an industrial diversification credit is
10 allowed under section 48(c)” after “energy prop-
11 erty”.

12 (2) Paragraph (5) of section 50(a) of such Code
13 is amended by adding at the end thereof the follow-
14 ing new subparagraph:

15 “(D) SPECIAL RULES FOR CERTAIN PROP-
16 PERTY.—In the case of property with respect to
17 which an industrial diversification credit is al-
18 lowed under section 48(c) and which is 3-year
19 property (within the meaning of section
20 168(e))—

21 “(i) the percentage set forth in clause
22 (ii) of the table contained in paragraph
23 (1)(B) shall be 66 percent,

24 “(ii) the percentage set forth in clause
25 (iii) of such table shall be 33 percent, and

1 “(iii) clauses (iv) and (v) of such table
2 shall not apply.”

3 (3) The section heading of section 48 of such
4 Code is amended by inserting before the period “;
5 **INDUSTRIAL DIVERSIFICATION CREDIT**”.

6 (4) The table of sections for subpart E of part
7 IV of subchapter A of chapter 1 of such Code is
8 amended by inserting before the period in the item
9 relating to section 48 “; industrial diversification
10 credit”.

11 (d) EFFECTIVE DATE.—The amendments made by
12 this section shall apply to taxable years beginning after
13 the date of the enactment of this Act.

14 **TITLE IV—SMALL BUSINESS**
15 **DIVERSIFICATION**

16 **SEC. 401. SMALL BUSINESS ADMINISTRATION COMMITTEE**
17 **ON DEFENSE AND ECONOMIC DIVERSIFICA-**
18 **TION.**

19 (a) ESTABLISHMENT.—There is established in the
20 Small Business Administration a Committee on Defense
21 and Economic Diversification (hereafter in this title re-
22 ferred to as the “Committee”) which shall be composed
23 of—

24 (1) the Chief Counsel for Advocacy;

1 (2) the Associate Deputy Administrator for Fi-
2 nance, Investment, and Procurement;

3 (3) the Associate Deputy Administrator for
4 Management and Administration;

5 (4) the Associate Deputy Administrator for
6 Special Programs;

7 (5) the Director of the Office of Economic Di-
8 versification and Adjustment (established under sec-
9 tion 202 of this Act);

10 (6) 2 representatives of the small business-man-
11 agement community to be appointed by the Adminis-
12 trator of the Small Business Administration, 1 of
13 whom shall be appointed from a defense related
14 small business and 1 from a nondefense related
15 small business; and

16 (7) 2 representatives of labor union organiza-
17 tions to be appointed by the Administrator of the
18 Small Business Administration.

19 (b) CHAIRPERSON.—The Associate Deputy Adminis-
20 trator for Finance, Investment, and Procurement shall
21 chair the Committee, shall preside over meetings, and
22 shall designate a member of the Committee to preside in
23 the absence of the Chairperson.

24 (c) VACANCIES.—Vacancies in the membership of the
25 Committee described in paragraphs (6) and (7) of sub-

1 section (a) shall be filled in the same manner as original
2 appointments are made. Vacancies in the membership of
3 the Committee shall not affect the authority of the remain-
4 ing members to execute the functions of the Committee.

5 (d) COMPENSATION.—Members of the Committee de-
6 scribed in paragraphs (6) and (7) of subsection (a) shall
7 be reimbursed for travel and per diem in lieu of subsist-
8 ence expenses during the performance of duties of the
9 Committee in accordance with subchapter I of chapter 57
10 of title 5, United States Code.

11 **SEC. 402. ESTABLISHMENT OF SMALL BUSINESS ADMINIS-**
12 **TRATION OFFICE OF ECONOMIC DIVER-**
13 **SIFICATION.**

14 (a) IN GENERAL.—There is established in the Small
15 Business Administration an Office of Economic Diver-
16 sification (hereafter in this title referred to as the “Of-
17 fice”) to provide staff support for the Committee.

18 (b) DIRECTOR.—The Office shall be headed by a Di-
19 rector who shall be a civilian appointed by the Adminis-
20 trator of the Small Business Administration and shall re-
21 port directly to the Associate Deputy Administrator for
22 Finance, Investment, and Procurement. The Director
23 shall be compensated at the rate provided for level V of
24 the Executive Schedule under section 5316 of title 5, Unit-
25 ed States Code.

1 (c) COMPENSATION.—The Administrator of the
2 Small Business Administration may appoint and fix the
3 compensation of such personnel for the Office as the Ad-
4 ministrator deems necessary and appropriate.

5 **SEC. 403. DUTIES.**

6 (a) IN GENERAL.—The Committee shall—

7 (1) carry out the programs provided for in title
8 V of this Act;

9 (2) identify defense related problems of small
10 businesses that require assistance;

11 (3) disseminate information furnished by the
12 President's Office of Economic Diversification and
13 Adjustment, the Secretary of Defense, and any other
14 Federal agency or official that may be useful to
15 small business concerns;

16 (4) prepare a plan for coordinating the efforts
17 of the Small Business Administration and the Ad-
18 ministration's programs for assisting firms adversely
19 affected by defense cutbacks;

20 (5) collect and disseminate information on—

21 (A) the issues involved with small business
22 diversification;

23 (B) successful diversification cases of small
24 business firms;

1 (C) retraining programs available to small
2 business firms;

3 (D) available venture and seed capital pro-
4 grams;

5 (E) available management assistance pro-
6 grams; and

7 (F) available loan and loan guarantee pro-
8 grams;

9 (6) work with representatives from the Presi-
10 dent's Office of Economic Diversification and
11 Adjustment to assist small businesses in finding al-
12 ternative procurement opportunities with Federal
13 agencies; and

14 (7) coordinate all efforts with the President's
15 Office of Economic Diversification and Adjustment.

16 **SEC. 404. AUTHORIZATION OF APPROPRIATIONS.**

17 There is hereby authorized to be appropriated such
18 sums as may be necessary to carry out the provisions of
19 this title.

20 **TITLE V—SMALL BUSINESS**
21 **ASSISTANCE**

22 **SEC. 501. SMALL BUSINESS DIVERSIFICATION LOAN**
23 **PROGRAM.**

24 (a) IN GENERAL.—The Administrator of the Small
25 Business Administration (hereafter in this title referred

1 to as the “Administrator”) is empowered to make either
2 loans or grants, either directly or in cooperation with
3 banks or other financial institutions through agreements
4 to participate on an immediate or deferred (guaranteed)
5 basis, to a qualified small manufacturing firm to assist
6 such firm to diversify from defense related to nondefense
7 related business.

8 (b) LOAN AND GRANT LIMITS AND MATCHING CON-
9 TRIBUTIONS.—Pursuant to subsection (a), the Adminis-
10 trator is authorized to make loans or grants in an amount
11 not exceeding the lesser of—

12 (1) \$40,000 for each qualified small manufac-
13 turing firm, or

14 (2) an amount equal to the sum of—

15 (A) the amount of private capital which
16 such firm has committed for the purposes de-
17 scribed in subsection (e), plus

18 (B) the amount of private capital which
19 such firm can demonstrate it has spent for the
20 purposes described in subsection (e) during the
21 6-month period preceding its application for a
22 loan or grant under subsection (a).

23 (c) PARTICIPATION.—In agreements to participate in
24 loans on a deferred (guaranteed) basis, such participation

1 by the Administrator shall be not less than 100 percent
2 of the amount provided for in subsection (b).

3 (d) LIMITATIONS.—(1) No qualified small manufac-
4 turing firm shall be deemed eligible for any loan or grant
5 pursuant to this title unless such firm demonstrates to the
6 satisfaction of the Administrator that not later than five
7 years after such firm receives such loan or grant, at least
8 75 percent of such firm's gross revenues will be derived
9 from nondefense related business.

10 (2) No financial assistance shall be extended pursu-
11 ant to this title if the applicant can obtain credit or finan-
12 cial assistance elsewhere, including other programs of the
13 Federal Government, and including loan and loan guaran-
14 tee programs of the Small Business Administration.

15 (3) No qualified small manufacturing firm shall be
16 eligible for any loan or grant pursuant to this title unless
17 the Administrator determines that the recipient will use
18 such loan or grant for the purposes described in subsection
19 (e).

20 (e) PURPOSES AND USES OF LOAN AND GRANT
21 FUNDS.—

22 (1) PURPOSES FOR WHICH LOANS AND GRANTS
23 USED.—Loans and grants made pursuant to this
24 title shall be used—

1 (A) to assist qualified small manufacturing
2 firms to diversify from defense related to
3 nondefense related business, and

4 (B) to put such firms in a position where
5 such firms can qualify for either private or com-
6 mercial financing, or for financing under sec-
7 tion 7(a) of the Small Business Act (15 U.S.C.
8 636(a)) for nondefense related business.

9 (2) SPECIFIC USES.—Loans or grants made
10 pursuant to this title may be used to—

11 (A) conduct market research and analysis,

12 (B) develop an alternative use or business
13 plan,

14 (C) conduct basic or applied research and
15 development for nondefense lines of business,

16 (D) strategic planning, and

17 (E) prototype development.

18 **SEC. 502. REGULATIONS.**

19 The Administrator shall promulgate regulations to
20 carry out the purposes of this title.

21 **SEC. 503. AUTHORIZATION OF APPROPRIATIONS.**

22 There is hereby authorized to be appropriated such
23 sums as may be necessary to carry out the purposes of
24 this title.

1 **TITLE VI—ECONOMIC ADJUST-**
2 **MENT ASSISTANCE FOR EM-**
3 **PLOYEES**

4 **SEC. 601. CERTIFICATION.**

5 (a) IN GENERAL.—All worker displacements, as de-
6 fined in subsection (b), affecting workers employed by a
7 defense contractor or civilian workers employed by the
8 Armed Services, shall be reported by the management of
9 the defense facility to the Office of Economic Diversifica-
10 tion and Adjustment and the State employment security
11 agency acting as agent of the Secretary of Labor for the
12 administration of the program under this title.

13 (b) WORKER DISPLACEMENT.—The displacement of
14 any worker who demonstrates that—

15 (1) he or she has permanently lost his or her
16 employment due to—

17 (A) the cancellation of a defense contract
18 affecting the defense facility at which he or she
19 is employed,

20 (B) the significant reduction in the volume
21 of defense work in relation to total defense
22 work in such facility, or

23 (C) the significant workforce reduction or
24 closure of a defense facility, and

1 (2) such employment loss has occurred within
 2 the period beginning 6 months before and ending 1
 3 year after causal action, described in subparagraph
 4 (A), (B), or (C) of paragraph (1)
 5 shall, for purposes of subsection (a), be deemed to be a
 6 displacement attributable to that action.

7 (c) The Office of Economic Diversification and Ad-
 8 justment in cooperation with the Department of Labor
 9 shall certify eligibility, for the benefits available under this
 10 title, of workers suffering displacement as defined in sub-
 11 section (b) based on regulations established by the Council
 12 on Economic Diversification and Adjustment, after con-
 13 sultation with the Secretary of Labor.

14 **SEC. 602. RETRAINING.**

15 (a) REALLOTMENT.—Section 302 of the Job Train-
 16 ing Partnership Act (29 U.S.C. 1652) is amended—

17 (1) in subsection (a)(1), by striking “80 per-
 18 cent” and inserting “75 percent”;

19 (2) in subsection (a)(2), by striking “20 per-
 20 cent” and inserting “25 percent”;

21 (3) in subsection (b)(2)(A), by striking “25 per-
 22 cent” and inserting “23.3 percent” and by striking
 23 “75 percent” and inserting “70 percent”; and

24 (4) in subsection (b)(2)(B), by striking “25 per-
 25 cent” and inserting “30 percent” and by striking

1 “section 462(e)” and inserting “subsections (e) and
2 (h) of section 462”.

3 (b) INCLUSION OF SKILLS UPGRADING FOR QUALI-
4 FIED DEFENSE CONTRACTOR EMPLOYEES UNDER TITLE
5 III.—Section 314 of the Job Training Partnership Act
6 (29 U.S.C. 1661c) is amended by adding at the end the
7 following new subsection:

8 “(i) SKILLS UPGRADING FOR QUALIFIED DEFENSE
9 CONTRACTOR EMPLOYEES.—Funds allotted under section
10 302 may be used to provide skills upgrading to individuals
11 described in section 325A(f)(2) in accordance with such
12 section.”.

13 (c) DATA ON DISPLACED DEFENSE WORKERS.—

14 (1) IN GENERAL.—Section 462 of the Job
15 Training Partnership Act (29 U.S.C. 1752) is
16 amended by adding at the end the following new
17 subsection:

18 “(h)(1) The Secretary shall develop, in coordination
19 with the Council on Economic Diversification and Adjust-
20 ment, statistical data relating to permanent dislocation of
21 defense workers due to reductions in defense expenditures,
22 termination or reduction of defense contracts (as defined
23 in section 3(b) of the Defense Industrial Diversification
24 and Community Assistance Act of 1993), or the closure

1 or realignment of defense facilities (as defined in section
2 3(d) of such Act). Among the data to be included are—

3 “(A) the number of defense facilities affected;

4 “(B) the number of defense workers displaced;

5 “(C) the location of affected defense facilities;

6 and

7 “(D) the types of defense facilities involved.

8 “(2) The Secretary shall publish a report based upon
9 such data as soon as practicable after the end of each cal-
10 endar year. Such report shall include a comparison of data
11 contained therein with contemporary data used by the Bu-
12 reau of Labor Statistics in determining the annual em-
13 ployment and unemployment rates of the United States
14 and an analysis of whether defense workers are being ade-
15 quately counted in such employment statistics. Such re-
16 port shall also include an analysis of alternative methods
17 for reducing the adverse effects of displacement of defense
18 workers, not only on the individual worker, but on the sur-
19 rounding community.”.

20 (2) CONFORMING AMENDMENT.—Section
21 405(a) of the Job Training Reform Amendments of
22 1992 is amended by striking “adding at the end”
23 and inserting “inserting after subsection (f)”.

1 **SEC. 603. INDIVIDUAL RETIREMENT ACCOUNT WITH-**
2 **DRAWAL.**

3 (a) EXEMPTION FROM PROHIBITED TRANSACTION
4 RULES.—Section 4975 of the Internal Revenue Code of
5 1986 (relating to tax on prohibited transactions) is
6 amended by redesignating subsection (i) as subsection (j)
7 and by inserting after subsection (h) the following new
8 subsection:

9 “(i) SPECIAL RULE FOR QUALIFIED DEFENSE
10 WORKERS.—

11 “(1) IN GENERAL.—The prohibition provided in
12 subsection (c) shall not apply to any qualified de-
13 fense worker for a 1 year period from such worker’s
14 date of layoff if such worker uses the funds for—

15 “(A) the payment of the principal or inter-
16 est on a mortgage of such worker’s primary res-
17 idence; or

18 “(B) for the rental expenses on his or her
19 primary residence.

20 “(2) QUALIFIED DEFENSE WORKER DE-
21 FINED.—For the purposes of this subsection, the
22 term ‘qualified defense worker’ means any worker
23 who demonstrates that—

24 “(A) he or she has permanently lost his or
25 her employment due to—

1 “(i) the cancellation of a defense con-
2 tract affecting the defense facility at which
3 he or she is employed,

4 “(ii) the significant reduction in the
5 volume of defense work in relation to total
6 defense work in such facility, or

7 “(iii) the significant workforce reduc-
8 tion or closure of such facility, and

9 “(B) such employment loss has occurred
10 within the period beginning 6 months before
11 and ending 1 year after the causal action, as
12 described in clauses (i), (ii), or (iii) of subpara-
13 graph (A).

14 “(3) SIGNIFICANT WORKFORCE REDUCTION.—
15 For purposes of this subsection, the term ‘significant
16 workforce reduction’ means any reduction in
17 workforce which results in an employment loss (as
18 defined in section 2(a)(6) of the Worker Adjustment
19 and Retraining Notification Act (29 U.S.C.
20 2101(a)(6)) at the single site of employment during
21 any 30-day period for—

22 “(A) at least 50 employees (excluding any
23 part-time employees), if such employees con-
24 stitute at least 33 percent of the workforce (ex-
25 cluding any part-time employees), or

1 “(B) at least 300 employees (excluding any
2 part-time employees).

3 “(4) OTHER DEFINITIONS.—For purposes of
4 this subsection, the terms ‘defense contract’ and ‘de-
5 fense facility’ shall have the meanings given such
6 terms by sections 3(b) and 3(d) of the Defense In-
7 dustrial Diversification and Community Assistance
8 Act of 1993, respectively.”.

9 **TITLE VII—COMMUNITY ECO-**
10 **NOMIC ADJUSTMENT PLAN-**
11 **NING**

12 **SEC. 701. NOTIFICATION.**

13 (a) IN GENERAL.—Upon release of the President’s
14 budget or any announcement of the realignment or closure
15 of any qualified defense facility, the Secretary of Defense,
16 acting through the Council on Economic Diversification
17 and Adjustment, shall promptly notify any State or local
18 government which may be affected by—

19 (1) the realignment or closure of any qualified
20 defense facility; or

21 (2) the slowdown, termination, or cancellation
22 of any defense contract,

23 which is proposed in, or would likely result from any pro-
24 posal contained in, such budget or in such announcement.

1 (b) NOTIFICATION OF COMMUNITIES AFFECTED BY
2 DEFENSE REALIGNMENT BEFORE DATE OF ENACT-
3 MENT.—In addition to the requirement of subsection (a),
4 the Secretary of Defense shall provide notice pursuant to
5 such subsection to any community likely to be affected by
6 any action described in paragraph (1) or (2) of such sub-
7 section which was proposed in any budget of the President
8 which was released or announced before the date of the
9 enactment of this Act.

10 **SEC. 702. ELIGIBILITY OF COMMUNITIES FOR ECONOMIC**
11 **ADJUSTMENT PLANNING ASSISTANCE.**

12 (a) IN GENERAL.—Any community which—

13 (1) is likely to be a substantially and seriously
14 affected community upon the implementation of re-
15 alignment or closure of any qualified defense facility,
16 or the slowdown, termination, or cancellation of any
17 defense contract (including any action for which no-
18 tice was provided pursuant to section 701(b) of this
19 Act); and

20 (2) complies with the requirements of sub-
21 section (b),

22 shall be eligible for economic adjustment planning assist-
23 ance under section 703 of this Act.

1 (b) ANALYSES AND FORECASTS.—(1) Any commu-
2 nity which seeks to become eligible for economic adjust-
3 ment planning assistance shall prepare—

4 (A) an analysis and forecast of the effect any
5 action described in paragraph (1) or (2) of section
6 701(a) of this Act will have on the local economy
7 and workforce; and

8 (B) a proposal for an economic adjustment plan
9 that addresses the community economic adjustments
10 appropriate to reduce the adverse effect of any such
11 action.

12 (2) Analyses, forecasts, and proposals for economic
13 adjustment plans prepared pursuant to paragraph (1)
14 shall be submitted to the Council for review and comment
15 before the end of the 4-month period beginning on the
16 date the Secretary of Defense provides notice under sub-
17 section (a) or (b) of section 701 of this Act.

18 (3) Any analysis and forecast prepared pursuant to
19 paragraph (1)(A) shall include a specific estimate of the
20 increase in unemployment projected as a result of any ac-
21 tion described in paragraph (1) or (2) of section 701(a)
22 of this Act for the most appropriate geographic or govern-
23 mental entity for which reliable statistics are compiled.

24 (4) The economic assumptions, methodology, and
25 analyses used to produce any estimate referred to in para-

1 graph (3) shall be made part of any planning documenta-
2 tion submitted to the Council pursuant to paragraph (2).

3 (c) DETERMINATION OF ELIGIBLE COMMUNITIES;
4 ANNUAL LISTS.—(1) The Council shall—

5 (A) review the material submitted under sub-
6 section (b)(2) by any community and determine
7 whether such community meets the requirement of
8 subsection (a) for eligibility for economic adjustment
9 planning assistance; and

10 (B) publish a list annually of communities eligi-
11 ble for economic adjustment planning assistance
12 under this title at the time the list is prepared.

13 (2) If the Council—

14 (A) determines under paragraph (1)(A) that
15 any community is not eligible for economic adjust-
16 ment planning assistance under this title; or

17 (B) fails to include any community in the an-
18 nual list published under paragraph (1)(B),

19 the community may petition the Council for review of such
20 determination or inclusion in such list, as the case may
21 be.

22 (3) The Council shall promptly review any petition
23 filed under paragraph (2).

1 **SEC. 703. COMMUNITY ECONOMIC ADJUSTMENT PLANNING**
2 **ASSISTANCE.**

3 Any community which has been determined by the
4 Council under section 702(c) to be eligible for economic
5 adjustment planning assistance shall be eligible for assist-
6 ance under section 2391(b) of title 10, United States
7 Code.

8 **SEC. 704. COMMUNITY ECONOMIC ADJUSTMENT ASSIST-**
9 **ANCE.**

10 Any substantially and seriously affected community
11 shall be eligible for economic adjustment assistance au-
12 thorized under title IX of the Public Works and Economic
13 Development Act of 1965 (42 U.S.C. 3241 et seq.).

14 **TITLE VIII—COMMERCIAL AND**
15 **DEFENSE PRODUCTION INTE-**
16 **GRATION**

17 **SEC. 801. INTEGRATION OF COMMERCIAL PRODUCTION**
18 **PROCESSES AND DEFENSE PROCUREMENT**
19 **PRACTICES.**

20 (a) OFFICE OF COMMERCIAL AND DEFENSE PRO-
21 Duction INTEGRATION.—Part IV of subtitle A of title 10,
22 United States Code, is amended by adding at the end the
23 following new chapter:

1 **“CHAPTER 173—INTEGRATION OF COM-**
2 **MERCIAL AND DEFENSE PRODUCTION**

“Sec.

“2911. Office of Commercial and Defense Production Integration.

3 **“§ 2911. Office of Commercial and Defense Produc-**
4 **tion Integration**

5 “(a) ESTABLISHMENT.—There is established within
6 the Department of Defense an office to be known as the
7 Office of Commercial and Defense Production Integration.
8 The office shall be under the Under Secretary of Defense
9 for Acquisition.

10 “(b) PURPOSES; DUTIES.—(1) The Office of Com-
11 mercial and Defense Production Integration shall develop
12 and implement policies, practices, and procedures designed
13 to achieve an effective integration of commercial produc-
14 tion processes and defense procurement practices. A pro-
15 curement practice or procedure shall be considered to
16 achieve effectively the integration of a commercial produc-
17 tion process and a defense procurement practice if the
18 practice or procedure—

19 “(A) increases the use of commercial products
20 in defense procurement;

21 “(B) increases commercial-style competition in
22 defense procurement practices;

23 “(C) lowers defense acquisition costs by stream-
24 lining the defense product acquisition process;

1 “(D) encourages integrated processes for manu-
2 facturing civilian and defense products; or

3 “(E) encourages research and development of
4 products having civilian and military applications.

5 “(2) The policies, practices, and procedures referred
6 to in paragraph (1) shall require, to the maximum extent
7 practicable—

8 “(A) the elimination of unique military speci-
9 fications in the procurement of defense products;

10 “(B) the adoption of military product specifica-
11 tions that are compatible with existing or evolving
12 commercial product specifications;

13 “(C) the adaptation of military products and
14 systems to permit the effective utilization of existing
15 or evolving commercial products;

16 “(D) the identification of commercial suppliers
17 that have exhibited historically high standards of
18 product quality and reliability in commercial or de-
19 fense production;

20 “(E) maximum participation by such qualified
21 suppliers in the defense procurement process; and

22 “(F) increased emphasis on supply quality.

23 “(c) NONDEVELOPMENTAL ITEMS.—The Office of
24 Commercial and Defense Production Integration shall as-
25 sist the Under Secretary of Defense for Acquisition in car-

1 rying out the duties of the Under Secretary under section
2 2325 of this title, relating to the procurement of
3 nondevelopmental items.”.

4 (b) CONFORMING AMENDMENTS.—(1) Section
5 2325(a) of title 10, United States Code, is amended—

6 (A) by striking “and” at the end of paragraph
7 (3);

8 (B) by redesignating paragraph (4) as para-
9 graph (5); and

10 (C) by inserting after paragraph (3), the follow-
11 ing new paragraph:

12 “(4) such requirements achieve effective inte-
13 gration of commercial production processes and mili-
14 tary procurement practices; and”.

15 (2) The table of chapters at the beginning of subtitle
16 A, and at the beginning of part IV of subtitle A, of title
17 10, United States Code, are each amended by adding after
18 the item relating to chapter 172 the following new item:

“**173. Integration of Commercial and Defense Production 2911**”.

19 **SEC. 802. REGULATIONS.**

20 Not later than six months after the date of enactment
21 of this Act, the Secretary of Defense shall prescribe such
22 regulations as may be necessary to carry out the amend-
23 ments made by section 801 of this Act.

1 **SEC. 803. DEMONSTRATION PROJECTS.**

2 (a) DEMONSTRATION PROJECTS.—(1) The Secretary
3 of Defense, acting through the Office of Commercial and
4 Defense Production Integration, shall conduct not less
5 than three projects designed to demonstrate the feasibility
6 of achieving effective integration of commercial production
7 processes and military procurement practices.

8 (2) The projects referred to in paragraph (1) shall
9 commence not later than six months after the date of en-
10 actment of this Act and continue thereafter for not longer
11 than one year.

12 (b) PROJECT PROPOSALS.—Not less than 30 days be-
13 fore the commencement of each project referred to in sub-
14 section (a), the Secretary shall notify Congress of the pro-
15 posed demonstration project. The Secretary shall include
16 in the notice—

17 (1) a description of the scope and structure of
18 the project; and

19 (2) an evaluation of the means by which the
20 project will achieve effective integration of commer-
21 cial production processes and military procurement
22 practices.

23 (c) PROJECT REPORTS.—Not later than 60 days
24 after the termination of each project referred to in sub-
25 section (a), the Secretary shall submit a report to Con-
26 gress evaluating the extent to which the project achieved

1 effective integration of commercial production processes
2 and military procurement practices, together with such
3 recommendations for additional legislation as the Sec-
4 retary determines necessary to carry out more effectively
5 the purposes described in section 801 of this Act.

6 **TITLE IX—COMMISSION ON**
7 **MILITARY BUDGET REFORM**

8 **SEC. 901. ESTABLISHMENT OF COMMISSION.**

9 (a) IN GENERAL.—There is established a commission
10 to be known as the Commission on Military Budget Re-
11 form (referred to in this Act as the “Commission”).

12 (b) MEMBERS.—The Commission shall consist of 12
13 members, appointed as follows:

14 (1) Four to be appointed by the Secretary of
15 Defense.

16 (2) Four to be appointed by the President pro
17 tempore of the Senate.

18 (3) Four to be appointed by the Speaker of the
19 House of Representatives.

20 (c) TERMS AND VACANCIES.—Members shall be ap-
21 pointed for the life of the Commission. Any vacancy occur-
22 ring in the membership of the Commission shall not affect
23 the powers of the Commission and shall be filled in the
24 same manner in which the original appointment was made.

1 (d) CHAIRMAN AND VICE CHAIRMAN.—The Commis-
2 sion shall elect a Chairman and Vice Chairman from
3 among its members.

4 (e) MEETINGS.—The Commission shall convene its
5 first meeting within 30 days after the first date on which
6 all members of the Commission have been appointed.
7 Thereafter, the Commission shall meet at the discretion
8 of its Chairman or at the call of a majority of its members.

9 (f) QUORUM.—Seven members of the Commission
10 shall constitute a quorum, but a lesser number may hold
11 hearings.

12 (g) COMPENSATION AND TRAVEL EXPENSES.—A
13 member of the Commission may not be paid compensation
14 for service performed as a member of the Commission.
15 However, members of the Commission shall be allowed
16 travel expenses, including per diem in lieu of subsistence,
17 at rates authorized for employees of agencies under sub-
18 chapter I of chapter 57 of title 5, United States Code,
19 while away from their homes or regular places of business
20 in the performance of services for the Commission.

21 **SEC. 902. DUTIES.**

22 (a) STUDY.—The Commission shall conduct a study
23 to determine the desirability and feasibility of Congress
24 instituting a three year budget cycle program for the De-
25 partment of Defense under which—

1 (1) the President would submit to Congress a
2 proposed budget for the Department of Defense for
3 three separate consecutive fiscal years;

4 (2) the Congress would enact separate legisla-
5 tion authorizing funds for the Department of De-
6 fense for three consecutive fiscal years and appro-
7 priating funds for that purpose for two consecutive
8 fiscal years;

9 (3) in each fiscal year after enactment of the
10 initial three year budget, the President would submit
11 to Congress a proposed budget for the Department
12 of Defense for the fiscal year following the last fiscal
13 year of the previous budget for the Department of
14 Defense; and

15 (4) in each fiscal year after the enactment of
16 the initial legislation authorizing funds for three
17 consecutive fiscal years and appropriating funds for
18 two consecutive fiscal years, Congress would enact
19 legislation authorizing funds for the fiscal year fol-
20 lowing the last fiscal year for which funds were au-
21 thorized in the previous budget referred to in para-
22 graph (3) and would enact legislation appropriating
23 funds for the fiscal year following the last fiscal year
24 for which funds were appropriated in the previous
25 budget referred to in that paragraph.

1 (b) SPECIFIC MATTERS TO BE CONSIDERED.—In
2 carrying out the study referred to in subsection (a), the
3 Commission shall specifically consider the following:

4 (1) the advantages and disadvantages of such a
5 program;

6 (2) the amount of savings that will likely result
7 from such a program;

8 (3) the effects that such a program would likely
9 have—

10 (A) on the activities and programs of the
11 Department of Defense;

12 (B) on both short-range and long-range
13 planning for national security; and

14 (C) on foreign military sales;

15 (4) the favorable and adverse effects that
16 multiyear defense budget programs have had on the
17 defense budget processes in foreign nations that
18 have adopted such programs; and

19 (5) alternative means of carrying out a
20 multiyear defense budget program.

21 (c) REPORT.—The Commission shall submit to the
22 Secretary of Defense and Congress a report on the results
23 of the study carried out under this Act, together with such
24 comments and recommendations as the Commission con-
25 siderers appropriate, not later than 12 months after the date

1 of the first meeting of the Commission under section
2 901(e) of this Act.

3 **SEC. 903. POWERS OF COMMISSION.**

4 (a) MEETINGS AND HEARINGS.—For purposes of
5 carrying out this Act, the Commission or, on the author-
6 ization of the Commission, any subcommittee or member
7 thereof, may hold such hearings, sit and act at such times
8 and places, take such testimony, and receive such evidence
9 as is appropriate.

10 (b) OBTAINING INFORMATION FROM FEDERAL
11 AGENCIES.—The Commission may secure directly from
12 any department or agency of the United States such infor-
13 mation as the Commission may require to carry out its
14 duties under this Act. Upon request of the Chairman of
15 the Commission, the head of such department or agency
16 shall furnish such information to the Commission.

17 **SEC. 904. ADMINISTRATIVE PROVISIONS.**

18 (a) STAFF.—(1) The Commission may appoint and
19 fix the compensation of such personnel as may be nec-
20 essary, without regard to the provisions of title 5, United
21 States Code, governing appointments in the competitive
22 service, and without regard to the provisions of chapter
23 51 and subchapter III of chapter 53 of such title relating
24 to classification and General Schedule pay rates, except
25 that the compensation of any employee of the Commission

1 may not exceed a rate equivalent to the rate payable under
2 level V of the Executive Schedule under section 5316 of
3 such title.

4 (2) Upon request of the Commission, the head of any
5 Federal agency is authorized to detail to the Commission,
6 on a reimbursable basis, any of the personnel of such
7 agency to assist the Commission in carrying out its duties
8 under this Act and such detail shall be without interrup-
9 tion or loss of civil service status or privilege.

10 (b) USE OF EXPERTS AND CONSULTANTS.—The
11 Commission may obtain the services of experts and con-
12 sultants in accordance with the provisions of section 3109
13 of title 5, United States Code, but at rates for individuals
14 not to exceed the daily equivalent of the minimum annual
15 rate of basic pay payable for a position classified above
16 GS-15 under section 5332 of such title.

17 **SEC. 905. TERMINATION OF COMMISSION.**

18 The Commission shall expire 30 days after the date
19 on which the report of the Commission is submitted to
20 the Secretary of Defense and Congress.

21 **SEC. 906. AUTHORIZATION OF APPROPRIATIONS.**

22 There is hereby authorized to be appropriated such
23 sums as may be necessary to carry out the purposes of
24 this title.



HR 1776 IH—2

HR 1776 IH—3

HR 1776 IH—4

HR 1776 IH—5